

## SOUTH ASIA

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**Afghanistan**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
CSD	0	2,000	0
DA	0	10,000	0
ESF	0	17,250	0
NADR-HD	2,800	4,000	0
ERF-IDA	0	50,000	0
ERF-NADR-HD	0	3,000	0
ERF-P.L. 480 Title II	0	75,117	0
P.L. 480 Title II	29,295	0	0

To help ensure U.S. national security and increase regional stability in South Asia, Afghanistan must never again become a breeding ground for terrorists, conflict, and extremism. Operation Enduring Freedom successfully initiated the war on terrorism in Afghanistan. However, a lasting victory will require that the United States and other donors provide adequate and strategically targeted political, economic, and security assistance. The United States is coordinating its efforts with those of Afghans, other donors, and international institutions through a cooperative process initiated at Bonn in December of 2001 and at the January 2002 reconstruction ministerial held in Tokyo.

To date, the United States has provided over \$400 million in humanitarian assistance for Afghans. We are also assisting the new Afghan Interim Authority (AIA), which supports the war on terrorism, to consolidate its role under the Bonn Agreement and to establish a Transitional Administration leading to a permanent government. At the Tokyo ministerial, the United States pledged \$296 million in carefully targeted reconstruction and development assistance, mostly from resources made available in FY 2002 for this purpose.

Although final funding levels have yet to be determined, FY 2003 resources will be required to sustain the recovery and reconstruction programs announced at Tokyo, to support the AIA and the political process agreed to at Bonn, and to help meet urgent security and law enforcement needs.

Due to deep social divisions and decades of conflict, establishing a broad-based and accountable government will prove essential to achieving stability in Afghanistan. Subsequent decisions will allow a portion of the overall Economic Support Funds (ESF) and Development Assistance (DA) requested for FY 2003 to support the two-year Transitional Administration, which is due to follow the AIA, and a traditional Loya Jirga council, which will help select the permanent government, possibly through elections. ESF will also be programmed to help rehabilitate law enforcement capabilities and support the Bonn political process, including, as appropriate, technical assistance with drafting and ratifying a new constitution, or small grants for NGOs to increase citizens' – particularly women's – political and economic participation.

A credible central governing body must be sustained in Afghanistan if reconstruction is to proceed. The State Department anticipates that budget or operational support for the Transitional Administration will continue to be needed and plans to use FY 2003 ESF for this purpose. Economic reconstruction and development must also proceed quickly in order to achieve stability, to provide opportunities for Afghan women to resume their roles in society, and to assist those who have profited from war and the drug trade to find alternative sources of income. FY 2003 DA funds will help sustain the reconstruction and

development programs announced at Tokyo in the agricultural, food security, education, and health sectors. Some FY 2003 ESF may be programmed for demobilizing and reintegrating ex-combatants into society.

On the humanitarian side, FY 2003 Non-proliferation, Anti-terrorism, Demining, and Related Programs (NADR) demining funds will help relieve the scourge of landmines, while also enabling agricultural development and access to markets. FY 2003 Migration and Refugee Assistance (MRA) will help sustain Afghan refugee populations in neighboring countries as reintegration and development programs promote their return.

Afghanistan emerged in the 1990's as the world's largest producer of illicit opiates. Proceeds from the narcotics trade have fueled terrorist movements throughout the region. In the Bonn Declaration (2001), the AIA committed itself to fulfilling its international obligation to take effective counternarcotics measures. The United States will assist the Afghan government in this effort. As part of a multi-donor effort to attack the narcotics problem, a portion of the FY 2003 regional International Narcotics Control and Law Enforcement (INCLE) funding will be used to support employment generation in poppy growing areas, eradication of opium poppy, and alternative development programs. It will also be used to provide assistance to the government in establishing drug control policies and strategies, and in developing law enforcement capacity to attack narcotics production, trade, and trafficking and related criminal activity.

**Bangladesh**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
CSD	15,500	39,950	0
DA	42,050	21,870	57,220
ESF	0	3,000	7,000
IMET	507	600	750
Peace Corps	908	612	765
P.L. 480 Title II	67,658	19,176	45,082

Continuing U.S. support for human rights and the consolidation of a moderate Islamic democracy in Bangladesh serves U.S. interests in combating terrorism while promoting regional stability. Bangladesh is a member of the counterterrorism coalition and actively seeks to contribute to Afghanistan's reconstruction. The United States continues to assist Bangladesh as it attempts to consolidate democratic gains, develop its economy, and professionalize its military.

During the past decade of democratic rule, Bangladesh has twice experienced a democratic change of power, most recently through an October 2001 election deemed the freest and fairest yet. However, political violence continues to hamper democratic consolidation. U.S.-supported observers, voter education, and training were important in achieving a successful 2001 parliamentary election. FY 2003 Development Assistance (DA) is requested to support efforts to make parliament more functional by expanding the role of the opposition and improving the parliament's responsiveness to its citizens. DA will also be used to strengthen local governments through technical assistance and to support human rights and anti-corruption advocacy groups.

FY 2003 DA funds will help combat abusive work conditions and eliminate child labor, especially in the garment factories producing for export. The Department of State, U.S. Agency for International Development, and the Department of Labor (through International Labor Organization projects) coordinate labor and anti-trafficking programs to help women and girls escape a vicious cycle of poverty and abusive work environments that contribute to prostitution and domestic servitude in Bangladesh and abroad. A U.S.-supported center for women working in the garment industry has provided education on human rights, health, and labor issues. U.S.-supported anti-trafficking programs have assisted the return of nearly 70 women and children victims of trafficking and the arrest of 108 traffickers over a fifteen-month period.

Bangladesh remains one of the poorest and most populous countries in the world. To assist Bangladesh's economic development, FY 2003 DA is requested for basic education. The FY 2003 ESF request will help diversify and privatize the economy through agribusiness, micro-enterprise, and information technology projects. FY 2003 P.L. 480 Title II-generated local currency proceeds and FY 2003 DA resources will continue and expand community infrastructure, disaster management, and agricultural diversification activities.

Bangladesh has rich natural gas reserves that could allow it to become a regional energy hub, earn hard currency to contribute to national development, and provide a cleaner alternative to other fuels. U.S. assistance can help Bangladesh develop this resource and has already helped provide investment and export opportunities for American firms. FY 2003 ESF will, therefore, support reform and privatization pilot initiatives in the energy and financial sectors. U.S. assistance efforts in the economic sector are bringing results. Sales grew in U.S.-assisted firms by \$23.8 million in 2001, including by \$5.1 million in exports, and the United States continued as a leader in developing export markets linked to micro-enterprise

businesses. U.S. assistance has also helped to prevent humanitarian crises due to annual flooding. U.S. efforts in the energy sector accomplished significant restructuring and strengthened rural cooperatives.

FY 2003 DA will sustain successful programs to promote family planning and reduce the spread of HIV/AIDS while improving child and maternal health. U.S. health programs have helped boost clinic utilization, increase the effectiveness of child and maternal health service, and consolidate government HIV/AIDS prevention efforts.

A lack of general environmental awareness, degradation of productive ecosystems as a result of poor resource management, and demands by an expanding population have placed severe stress on Bangladesh's natural resources. Part of the FY 2003 DA will be used to enhance community-based, NGO, and government natural resource management and to help restore selected tropical forest and aquatic ecosystems. A portion of the FY 2003 ESF will address Bangladesh's severe arsenic contaminated drinking water problems. U.S.-supported programs thus far have successfully established local resource management efforts and have facilitated a small grants program for the conservation and management of tropical forest biodiversity.

Bangladesh's weak law enforcement institutions continue to struggle against illicit opiates originating from India, Burma, and Afghanistan. A portion of the FY 2003 regional International Narcotics Control and Law Enforcement (INCLE) funds will be used to assist Bangladesh with the development of a strategic plan to improve the criminal investigative capacity of the Bangladeshi law enforcement agencies, develop a functioning counternarcotics forensic facility, and improve criminal investigations and prosecutions.

Bangladesh's military supports and helps to uphold the country's democratic system. FY 2003 International Military Education and Training (IMET) is requested to further improve professionalism, interoperability, and performance, and to enhance the military's ability to fight terrorism and drug and arms smuggling. Past IMET training programs have contributed to helping Bangladesh become one of the world's largest providers of troops for international peacekeeping operations. It has, with U.S. assistance, opened its own peacekeeping training center, and Bangladesh's military has become a firm supporter of democracy. Bangladesh will be eligible in FY 2003 to receive Excess Defense Articles (EDA) on a grant basis under Section 516 of the Foreign Assistance Act. The transfer of grant EDA will assist Bangladesh in meeting defense requirements, enacting reforms, and furthering interoperability.

Peace Corps volunteers in Bangladesh will expand U.S. engagement in the education, health, and community development sectors.

**India**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
CSD	24,593	41,678	0
DA	28,805	29,200	75,185
ESF	4,989	7,000	25,000
FMF	0	0	50,000
IMET	498	1,000	1,000
NADR-EXBS	892	900	1,750
P.L. 480 Title II	78,064	86,431	91,288

The events of September 11 have intensified the already rapid pace with which the United States has strengthened its ties with India. India has provided crucial support for Operation Enduring Freedom, including use of its ports by U.S. vessels. Although tensions with Pakistan remain high since the December 13, 2001, attack on the Indian Parliament, the United States is actively engaged in efforts to help India and Pakistan address their disputes and to dissuade them from embarking on a nuclear arms race. U.S. assistance to India addresses poverty and the conditions it exacerbates, including environmental degradation, trafficking in persons, child labor, and discrimination against women. U.S. assistance also seeks to expand the opening of India's economy and reduce Indo-Pakistan tensions by facilitating people-to-people exchanges while helping to secure the border against terrorist infiltration.

India faces strong rule of law and human rights challenges in the political arena. Of over 100 million out-of-school children, 44 million are employed in industries. FY 2003 Economic Support Funds (ESF) and Development Assistance (DA) will be used to promote judicial reform and the rule of law; to help women, girls, and children escape from poverty; and to address the growing problem of trafficking and forced labor by women and children. Included will be programs aimed at increasing the effectiveness and efficiency of state legislatures; training female legislators; reducing violence against women through informed advocacy; expanding bridge school efforts in selected cities to educate out-of-school children engaged in labor; and working with formal and customary systems of justice to define options for improving access by disadvantaged groups, particularly the Dalits. Programs to increase access by these groups to other services, including education and social justice, will be added in FY 2003.

The above are long-term programs aimed at deeply-rooted problems. Given India's size, they will operate initially in a limited number of localities before expanding their scope. U.S. programs thus far have strengthened public awareness of women victims of violence and supported NGOs providing counseling, legal, and medical assistance to them. U.S.-supported bridge schools have enrolled and retained 500 dropouts, formed over 850 community committees, and trained over 300 teachers. Women's micro-financing activities were initiated in 2001.

Indian economic reforms of the 1990s lifted over 100 million people out of abject poverty, but 300 million remain poor and economic growth is faltering. In the economic arena, FY 2003 DA will continue to support basic education, while FY 2003 DA and ESF will each support complementary aspects of the U.S. Financial Investment and Economic Reform (FIRE) program in India, which assists in improving the efficiency and transparency of the capital and debt markets, insurance regulatory structures, micro-finance, and pension fund management. FY 2003 DA and ESF will also be used to facilitate power sector restructuring, which will assist in reducing India's fiscal deficit. The United States has continued its high-level advocacy on behalf of U.S. power companies seeking to expand their business throughout India, as well as a host of other U.S. companies having market access and regulatory difficulties in India. FY 2003

ESF will also continue to help state governments prepare for natural disasters, such as the earthquake that struck Gujarat in January 2001. U.S. programs have been fully active only since late 2001 when sanctions on the economic growth programs were lifted.

To complement power sector reform efforts, U.S. environmental programs are focused on the energy sector. FY 2003 DA and ESF will be used to increase efficiency in electricity generation and promote non-conventional energy sources, commercialize energy efficient technologies and services, and implement urban environmental infrastructure projects that improve access to basic services for the poor. A new objective of the FY 2003 environmental programs will be to reform energy distribution and synergize results around the water/energy nexus. U.S. program results thus far include facilitating Tamil Nadu water and sanitation projects, launching a six-city program to reduce greenhouse gas emissions, facilitating private sector participation in waste management, and supporting municipalities to institutionalize energy savings in their water and waste systems.

India accounts for more than one sixth of global population growth, yet child and maternal survival continue as problems. FY 2003 DA funds will be used to promote family planning, improve child survival and nutrition in selected areas, and help expand and improve the treatment and prevention of infectious diseases, especially HIV/AIDS, using proven strategies for behavior changes and expanding access to quality treatment and public-private partnership programs for high-risk groups. FY 2003 P.L. 480 Title II food resources will be distributed directly as a nutritious supplement to 7.5 million pregnant and nursing mothers and children under six years of age in over 102,000 villages. FY 2003 DA funds will also be provided to the government to implement polio and tuberculosis eradication efforts. U.S. programs thus far have begun to increase basic health care access and provision in partnership with CARE and Catholic Relief Services, and to improve the NGO sector's capacity to manage and implement HIV/AIDS activities and launch a statewide prevention and destigmatization campaign. Polio eradication in hard-to-reach populations remains a challenge, although cases have declined through December 2001. U.S. support for treatment for tuberculosis being carried out with the World Health Organization indicates a doubling of treatment success over the last 18 months.

The Indian military is a significant contributor to international peacekeeping efforts, and President Bush and Indian Prime Minister Vajpayee have agreed to enhance security cooperation. To this end, the United States intends to provide a portion of its FY 2003 regional Non-Proliferation, Anti-terrorism, Demining, and Related Programs (NADR) funding to help India meet its border security needs. These programs reflect the heightened level of cooperation agreed to during several meetings of the Indo-U.S. Joint Working Group on Counter-Terrorism. The funds will cover monitoring equipment and training. A portion of the FY 2003 regional International Narcotics Control and Law Enforcement (INCLE) funds will focus on enhancing counter-narcotics and law enforcement efforts, as well as on reducing the diversion of opium production into illicit trade activities.

A new FY 2003 Foreign Military Financing (FMF) program will promote Indo-U.S. cooperation and interoperability on submarine rescue equipment. International Military Education and Training (IMET) continues to play an important role in fostering Indo-U.S. military-to-military contacts and promoting shared goals. FY 2003 IMET funding will increase Indian participation in U.S. service schools. India will be eligible in FY 2003 to receive Excess Defense Articles (EDA) on a grant basis under section 516 of the Foreign Assistance Act. The EDA will be used to support the continuing war on terrorism and for India's critical assistance in Operation Enduring Freedom. It is envisioned that grant EDA would be used to promote inter-operability and modernize equipment previously provided. Grant EDA will be used to support peacekeeping missions. Making India grant eligible for EDA will enhance U.S. influence and provide the U.S. Government needed access in the region.

**Maldives**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
IMET	110	125	150

The Government of Maldives strongly supports the international war on terrorism, providing important access for U.S. vessels and allowing aircraft transit rights and airport access during Operation Enduring Freedom. Maldives is a moderate Islamic voice in the region and also supports U.S. positions in international fora. U.S. priorities in this small archipelago nation are to maintain stability by strengthening its democratic institutions, and to coordinate policies in international organizations, especially on such issues as drug trafficking, nonproliferation, international crime, and terrorism. Absent a U.S. mission in Maldives, engagement continues through regular diplomatic exchanges managed by the U.S. Embassy in Sri Lanka, through International Military Education and Training (IMET) programs, and through South Asian regional Economic Support Funds (ESF), channeled through Embassy Colombo.

FY 2003 International Military Education and Training (IMET) will continue to be used to encourage professionalism in the Maldives military. IMET training will also help foster increased awareness of human rights concerns, greater participation of citizens in the political and economic life of the country, and freedom of religion and the press. In Maldives, FY 2003 regional ESF programs will focus on promoting the rule of law, human rights and democracy, and empowerment of women, possibly including courses conducted at the country's faculty of law and shari'a.

**Nepal**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
CSD	9,250	20,000	0
DA	11,858	7,597	31,696
ESF	0	3,000	6,000
FMF	0	2,000	3,000
IMET	237	400	500
Peace Corps	1,735	2,062	1,858
P.L. 480 - Title II	0	2,603	0

Nepal has supported the international war on terrorism not only by condemning the attacks, but also by granting overflight, landing, and refueling clearances to allied forces. Strengthening Nepal and its neighbors against a growing Maoist threat will assist the United States to achieve U.S. regional and bilateral goals. These include preventing the spread of terror, enhancing stability, promoting moderate democratic rule, and protecting U.S. citizens engaged in travel and business in Nepal. During 2001, tumultuous events challenged the government as ten members of the royal family were killed, followed by the accession of a new king and a peaceful transfer of power as the democratic parliament selected a new prime minister. Peace negotiations to resolve the indigenous six-year Maoist insurgency collapsed in November, and the Maoists have since conducted a series of major nationwide attacks against police, government, and army facilities.

The Maoist insurgents now control at least six government districts, have a significant presence in at least 21 others, and have touched nearly all of the remaining 48 districts. By assisting the government to contain the insurgency, the United States can help bring the Maoists back to the negotiating table. The United States supports Nepal's counterinsurgency efforts through a multi-track approach that includes counter-terrorism training and equipment for the military and police, targeted rural development in areas vulnerable to Maoist influence, help in strengthening weak democratic institutions, and assistance with the development of intelligence and national security coordination.

Economic development has suffered, particularly in remote rural areas, as government military expenditures have increased. FY 2003 Economic Support Funds (ESF) will help address underlying conditions that have increased Maoists' appeal – poverty, unemployment, and illiteracy – by supporting tangible, quick-impact infrastructure improvements that provide employment in areas most vulnerable to Maoist influence. In addition, ESF and Development Assistance (DA) funds will support related economic growth activities along with local governance and a mass media campaign to educate the public. The addition of basic education funds will expand literacy and provide assistance to improve textbook and ancillary ready materials that focus on democratic and free market principles. FY 2003 DA will also be used to help improve government policies and procedures for service delivery in conflict-affected areas, promote private sector development of hydropower, and support agriculture.

Degradation of productive ecosystems as a result of poor resource management and demands by an expanding population has placed severe stress on the sustainable natural resources of Nepal. FY 2003 DA-funded programs will also promote the wise use and equitable distribution of natural resources. Nearly 40 percent of the population lacks access to basic health care. DA funding will help the government provide affordable health and family planning services. U.S. program results thus far include establishment of local natural resource users groups and women's groups, and decreased child mortality and population growth rates. The counterinsurgency rural infrastructure program activities will begin in FY 2002.

To strengthen Nepal's fragile democracy against the Maoist threat, FY 2003 DA will be used to continue programs in civic education and to strengthen local democratic social institutions in conflict-affected communities. DA will also fund bilateral and regional activities to combat trafficking in women and children, particularly in the areas of protection, prosecution, law enforcement cooperation, development of effective legislation against trafficking, data collection, extradition of offenders, and repatriation of victims. Access to legal advocacy, training in basic literacy, and business skills for women at risk of trafficking or repatriated from trafficking will also be supported with DA. The U.S. Department of Labor funds ILO-implemented programs that will complement our efforts to reduce trafficking, and a portion of the regional FY 2003 International Narcotics Control and Law Enforcement (INCLE) funds will be used to increase the capacity of Nepali law enforcement to cope with trafficking in persons and narcotics trafficking. U.S. democracy programs, initiated in September 2001, have thus far contributed to training for voter and election officials, development and distribution of a new civics textbook for high school students, and training for teachers in using this textbook. Materials to train women elected officials and women candidates for office have been developed, and training will be undertaken in FY 2002.

Nepal remains one of South Asia's leading contributors to UN peacekeeping missions in trouble spots around the globe. It operates a successful peacekeeping training center, which has received significant U.S. funding. FY 2003 International Military Education and Training (IMET) funds will help increase the skills and professionalism of the military and will continue to enhance Nepal's considerable contributions to international peacekeeping. FY 2003 Foreign Military Financing (FMF) will be used to expand training opportunities and to provide additional equipment to meet the army's basic needs. Nepal will be eligible in FY 2003 to receive Excess Defense Articles (EDA) on a grant basis under Section 516 of the Foreign Assistance Act. The transfer of grant EDA will assist Nepal in countering the Maoist insurgency.

Peace Corps volunteers in Nepal expand U.S. engagement in the education, health, and environmental sectors.

**Pakistan**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
CSD	0	5,000	0
DA	0	10,000	50,000
ESF	0	9,500	200,000
FMF	0	0	50,000
IMET	0	1,000	1,000
INCLE	3,500	2,500	4,000
ERF-ESF	0	600,000	0
ERF-INCLE	0	73,000	0
ERF-PKO	0	220,000	0
P.L. 480 Title II	1,855	0	0

Pakistan's continued support for Operation Enduring Freedom, help in detaining and handing over fleeing al Qaeda and Taliban, and crackdown on extremism have proven critical to U.S. success in the international war on terrorism. Reciprocal U.S. support for Pakistan is key to meeting our regional goals of achieving the success of Operation Enduring Freedom, containing Islamic extremism, fostering and maintaining stability, and strengthening democracy in South Asia, as well as in Pakistan itself.

Prospects for economic and political development in Pakistan are hindered by an education sector that, despite investments in building schools, features unequal access and many poorly qualified teachers. Literacy, enrollment, and retention rates are also poor, and much lower for girls, hindering Pakistan's future development prospects. While preliminary work was done to assist the government's education reforms in FY 2001, U.S. basic education assistance to Pakistan began in FY 2002 through a multi-year interagency Presidential Initiative announced during President Musharraf's February 2002 visit to the United States. President Musharraf is making a concerted effort to reform Pakistan's education sector as a way to combat Islamic extremism and the spread of terrorism. FY 2003 Development Assistance (DA) will support this priority objective by helping with government policy reform, teacher training, curriculum development, community and private partnerships and girls' education initiatives.

Having experienced a military coup in 1999, Pakistan is scheduled to hold national elections by October 2002. A portion of the FY 2001 and 2002 ESF funds is being used for programs to support them. FY 2003 DA will be used to strengthen civil society and political party reform in order to address long-standing governance problems that contributed to the coup. New leadership will be fostered in issue-based civil society organizations and political parties. New fora will be created to bring local government authorities, political leaders, and citizens together to force a consensus on priority development issues. Capabilities to develop and use methods of informing decision-makers in government and civil society, including research and analysis, will be strengthened. Initial U.S. activities in the political sector began late in FY 2001.

Pakistan must also address underlying poverty and the lack of social services that have fed extremism. FY 2003 Economic Support Funds (ESF) will be used for balance of payments support to ease Pakistan's debt burden and free up national funds for education reform and social security programs. While agriculture contributes heavily to the economy and employs close to half of the labor force, the country faces the challenge of land degradation. FY 2003 DA will be used to promote economic growth in the agriculture sector through improved water management and support for community-based income generation projects, including land and water resource management, and improved access to markets and

micro-credit. Women will be key implementers of these development programs. Pakistan has a very high population growth rate, and 26 percent of children are moderately to severely underweight. A health program beginning in FY 2002 will promote voluntary family planning and seek to reduce mortality rates for women and young children.

FY 2003 regional International Narcotic and Law Enforcement (INCLE) funds will help improve the effectiveness of Pakistan's law enforcement efforts, particularly toward destruction of major heroin trafficking organizations, tracing and seizing assets of such organizations, strengthening Pakistan's judicial system, and prosecuting key figures in the heroin trade. INCLE funding will also be used to consolidate and maintain opium poppy eradication efforts and significantly reduce the flow of opiates from Afghanistan, as well as to increase the political and public awareness of the negative impact of illegal drug use and trafficking on Pakistani society.

The FY 2003 security assistance request for Pakistan includes International Military and Education Training (IMET) to increase professionalism and promote respect for human rights and a functional role for the military under democratic civilian rule. FY 2003 Foreign Military Financing (FMF) will facilitate continued military support for Operation Enduring Freedom by allowing the supply of spare parts for Pakistan's existing U.S.-origin equipment, as well as by providing C-130 support and helicopters to improve transport and access to border areas.

**Sri Lanka**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
CSD	300	300	0
DA	3,399	5,150	6,050
ESF	0	3,000	4,000
IMET	252	275	350

Long a victim of terrorism in its struggle with the Foreign Terrorist Organization-designated Liberation Tigers of Tamil Eelam (LTTE), Sri Lanka has strongly supported the international war on terrorism. As of March 2002, the Sri Lankan government and the Tamil insurgents were nearing a permanent cease-fire agreement preparatory to restarting peace talks, providing an important opportunity to foster an environment supportive of peace. U.S. national interests in Sri Lanka include combating the spread of terrorism and promoting stability on a regional level by facilitating an end to Sri Lanka's 19-year civil war. The United States will continue to support diplomatic efforts by the Norwegian Government to facilitate negotiations between the Government of Sri Lanka and the LTTE.

Sri Lanka has a long democratic tradition, and progress has been made on press freedom. Yet recent elections were marred by serious violence and fraud. FY 2003 Economic Support Funds (ESF) will be used to strengthen Sri Lanka's democratic institutions and promote conflict resolution and human rights with a focus on three critical and interrelated areas: expanding constituencies for peace and promoting community-level reconciliation through rural development projects, strengthening support for key democratic reforms, and empowering groups to defend against rights abuses arising from the conflict and the erosion of democracy. Specifically, FY 2003 ESF will support government efforts to strengthen free and fair electoral administration; capacity development for local governments' court case management systems and improvement of investigative techniques; rights awareness among minority groups in the conflict zone; and health needs of individuals, particularly women and children, affected by systematic violence.

As the first country in South Asia to liberalize its economy, Sri Lanka has impressive social indicators. While Sri Lanka's macroeconomic policies have generally supported private sector-led growth, reforms are still needed at the micro level. FY 2003 Development Assistance (DA) will be used for basic education. DA will also help increase Sri Lanka's competitiveness in the global marketplace, both through completing competitive strategies for eight industry clusters in ways that bring industry and government together to address remaining reforms, and through assisting the government's development of a policy and operational framework for competitiveness. Greater competitiveness will lead to increased employment, including in high skilled jobs, and improve income distribution. Finally, DA will enhance economic and social opportunities for disadvantaged groups, for example, through programs that involve children of all ethnicities and those at risk of being involved in the sex trade.

Criminal organizations, including narcotics trafficking networks, take advantage of Sri Lanka's weak controls over its maritime borders. FY 2003 regional International Narcotics Control and Law Enforcement (INCLE) funds will be used to assist Sri Lanka improve airport control and maritime and coastal interdiction capacity. The United States will continue regional Non-Proliferation, Anti-terrorism, Demining, and Related Programs (NADR) funding for Anti-terrorism Assistance (ATA) training to help the Sri Lankan Government counter terrorist threats, particularly in urban areas. Although the LTTE and the Government are now observing a cease-fire, the risk of a resumption of terrorist attacks remains should peace efforts fail.

U.S. military cooperation with Sri Lanka has helped improve military professionalism and sensitivity to humanitarian law, reducing civilian casualties and human rights abuses. FY 2003 International Military Education and Training (IMET), in concert with other military-to-military cooperation such as Joint Combined Exercise Training exercises, will support the Sri Lankan military in its fight against the LTTE. Sri Lanka will be eligible in FY 2003 to receive Excess Defense Articles (EDA) on a grant basis under Section 516 of the Foreign Assistance Act. The transfer of grant EDA will assist Sri Lanka in meeting defense requirements, enacting reforms, and furthering interoperability.

U.S. Embassy Colombo will be responsible for implementation of any programs funded with FY 2003 regional ESF resources in the Maldives.

**South Asia Regional Funds**  
(\$ in thousands)

Account	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request
ESF	0	3,500	2,000

Encouraging support for the international war on terrorism and promoting political and economic stability in South Asia are key to U.S. national security. The region continues to face cross-border challenges that can be addressed through smaller, targeted programs with a regional focus. FY 2003 Economic Support Funds (ESF) will be used for such programs in a variety of sectors.

South Asia regional ESF programs will promote the spread of democracy and respect for human rights through programs for NGOs and government officials that bring representatives from various countries together, for example, to address corruption and gain legislative, advocacy, and other skills. Regional ESF funds will also support regional cooperation in rehabilitating individuals who have been trafficked for prostitution and other forced labor. These programs will provide training and educational opportunities to give women and girls the means to earn their own living.

Opening regional markets, encouraging reform, and improving the regional business climate are essential to accelerating economic growth rates and increasing U.S. exports to and investment in South Asia. For example, the South Asia ESF regional funds and Development Assistance (DA) have supported the South Asian Regional Initiative for Energy, which promotes the efficiency of the energy sector and overall economic development in Bangladesh, India, and Nepal. Regional ESF funds will also be used for such projects that promote reforms and strengthen cross-border economic cooperation.

Basic education is a high U.S. priority for the region in light of the need to address extremism and the illiteracy and poverty that have contributed to the spread of terrorism in South Asia. Until U.S. bilateral education programs can be increased over the next few years, South Asia regional ESF funds will provide supplementary education resources to promote reform and provide access to basic education.

Only a regional effort can effectively counter the deadly nexus between cross-border environmental crime, Maoist insurgencies in India and Nepal, and international terrorism. Reports are accumulating that many of the same syndicates that traffic in contraband chemicals, timber, or products of endangered species are also involved in illicit commerce in human beings, narcotics, and/or arms. Programs supported by regional ESF funds will build national capacities to apprehend and prosecute the traffickers, help secure borders, and promote regional cooperation in breaking up criminal networks.

Many environmental problems in the region also require a cross-border approach. Water is a critical transboundary resource for South Asia – the most water-stressed region of the world. Problems with both water quantity and quality have enormous implications for economic development generally, energy supply, agricultural productivity, health and nutrition, food security, and regional stability. Water plays a major role in natural disasters that strike the subcontinent. Regional water initiatives also serve as effective confidence-building measures when international tensions and over-politicization block other avenues.

Regional environmental initiatives do not duplicate bilateral country programs. Moreover, in most cases the implementing organizations are U.S. government agencies such as the U.S. Geological Survey (USGS), the Environmental Protection Agency, the Department of the Interior's Fish and Wildlife Service, or the Department of Energy. U.S. taxpayers are also the direct beneficiaries of the scientific research carried out under these programs. For example, USGS research into arsenic groundwater contamination has important consequences for U.S. agricultural science, such as irrigation practices, as well as for cancer research.